

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON CACADU DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Cacadu District Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, these financial statements present fairly, in all material respects, the financial position of the Cacadu District Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) described in note 1.1 and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act

No.56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA).

Emphasis of matter

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Restatement of corresponding figures

8. As disclosed in note 26 to the financial statements, the corresponding figures relating to the prior financial year have been restated in the financial statements for the year under review. This is due to prior year errors discovered during the year under review.

Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

9. The supplementary information set out in Appendix C, D and E (2) does not form part of the financial statements and is presented as additional information, therefore no opinion will be expressed thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

10. As required by the PAA and in terms of General Notice 1570 of 2009 issued in Government Gazette 32758 of 27 November 2009, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations, Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Municipal Planning and Performance Regulations, 2001 (MPPR), and financial management (internal control).

Predetermined objectives

11. Material findings on the report on predetermined objectives, as set out on pages ... to ..., are reported below:

Non-compliance with regulatory and reporting requirements

Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA)

Submission of Integrated Development Plan (IDP)

12. The IDP was not submitted to the MEC for local government in the province within 10 days of the adoption of the plan as prescribed in terms of section 32(1)(a) of the MSA.

No service level agreement

13. The service level agreement in place between the two parent municipalities, Cacadu District Municipality and Kouga Municipality, and the municipal entity, Kouga Development Agency, under their shared control, did not include all the requirements as prescribed in terms of section 93C of the MSA.

Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA)

Content of Service Delivery and Budget Implementation Plan (SDBIP)

14. Contrary to the requirements of section 21(1)(a) of the MFMA, the approved SDBIP included unfunded strategies and related targets.

Municipal Planning and Performance Regulations, 2001 (MPPR)

Internal auditing of performance measurements

15. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit all the required quarterly reports on their audits to the municipal manager and the performance audit committee as prescribed in terms of regulation 14(1)(c) of the MPPR.

Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Reported performance information not relevant

16. The following indicators / measures and targets as per the SDBIP for the year under review did not relate directly to the institution's strategic goals and objectives as per the integrated development plan.

Indicator: Align infrastructure spending at local municipality

Target: Visitation to all LMs to explain importance, Motivate projects in IDP

Indicator: Continual support that Audit Committees are functioning effective

Target: Fully affective Audit Committees

Reported performance information not measurable

17. For the following selected objectives that fall within Development Priority 1: Infrastructure Investment, planned and reported indicators/measures were not specific in clearly identifying the nature and the required level of performance, measurable in identifying the required performance and time bound in specifying the time period or deadline for delivery.

- To assist LM's to provide adequate potable water and adequate sanitation by 2010
- To provide and sustainable infrastructural maintenance plans.
- To provide effective and sustainable infrastructural maintenance plans

Reliability of reported performance information

The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

No supporting source documentation

18. For the following reported indicators/measures, the completeness of the reported target could not be established, as sufficient appropriate audit evidence in the form of a register could not be provided for audit purposes.

Indicator: To monitor relevant food outlets within the identified areas so as to ensure that food complies with acceptable micro and chemical standards through

Target: 4 tests in each area (Baviaans, Ikwezi, DMA North and South) and respective CCOs for all compliant outlets

Indicator: Improve water quality in the DMA

Target: 90% of samples tested, passed.

Compliance with laws and regulations

Municipal Finance Management Act of South Africa, 2003 (Act No.56 of 2003) (MFMA)

Expenditure was not paid within the parameters set by the applicable legislation

19. All suppliers were not paid within 30 days of receiving the relevant invoice or statement as prescribed in terms of section 99(2)(b) of the MFMA.

The audit committee was not properly established or not functioning

20. The audit committee did not meet at least four times a year, as prescribed in terms of section 166(4)(b) of the MFMA.

The accounting officer did not adhere to his/her statutory responsibilities

21. The internal auditors of the municipality did not issue internal audit reports in terms of the approved audit plan as prescribed in terms of section 62(c)(ii) of the MFMA.

The financial statements were not prepared in accordance with applicable legislation

22. In order for the financial statements to meet the requirements of section 122(1) of the MFMA, material misstatements identified during the audit were corrected by management.

INTERNAL CONTROL

23. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), Municipal Supply Chain Regulations (GNR 868 of 30 May 2005), Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA) and the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), but not for the purpose of expressing an opinion on the effectiveness of internal control.

24. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

Oversight responsibility: Compliance

The accounting officer did not exercise oversight responsibility over compliance with laws and regulations relating to predetermined objectives as a number of non-compliance with regulatory and reporting requirements were identified.

A number of shortcomings were identified relating to targets set that were not specific, measurable, and time bound. There was a lack of oversight of the performance management system as there was no documented policy and procedure framework in place to guide the process involved (setting targets, collation of information, assigning the various roles and responsibilities, etc) to ensure that the report on predetermined objectives was reliable and useful and that the information contained therein was valid, accurate and complete.

Actions to mitigate risks: Accountability and reporting

Decisive action was not taken by those charged with governance to mitigate emerging risks relating to the achievement of complete and accurate reporting on predetermined objectives as irrelevant objectives, outcomes, outputs, indicators and performance targets were identified.

- **Financial and performance management**

Quality, reliable annual financial statements: Accountability and reporting, Compliance

The financial statements to be included in the annual report were subject to material corrections.

Adequate systems: Accountability and reporting

Adequate systems of controls were not implemented to ensure that invoices are received from suppliers on a timely basis to ensure that the payment of invoices was made within the legislated timeframes.

- **Governance**

Audit committee: Compliance

The audit committee did not fulfil its responsibilities as set out in legislation as only three of the four required meetings were held during the year.

Internal audit: Operational, Compliance

The internal auditors of the municipality did not issue internal audit reports in terms of the approved audit plan.

Auditor General.

Port Elizabeth

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence